

# SECURITIES AND EXCHANGE COMMISSION

## FORM 8-K

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### FILER

#### TEKELEC

CIK: **790705** | IRS No.: **952746131** | State of Incorpor.: **CA** | Fiscal Year End: **1231**  
Type: **8-K** | Act: **34** | File No.: **000-15135** | Film No.: **111182766**  
SIC: **3663** Radio & tv broadcasting & communications equipment

#### Mailing Address

5200 PARAMOUNT PARKWAY  
MORRISVILLE NC 27560

#### Business Address

5200 PARAMOUNT PARKWAY  
MORRISVILLE NC 27560  
919-460-5500

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 7, 2011

TEKELEC

(Exact name of registrant as specified in its charter)

<u>California</u> (State or other jurisdiction of incorporation)	<u>000-15135</u> (Commission File Number)	<u>95-2746131</u> (IRS Employer Identification No.)
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<u>5200 Paramount Parkway, Morrisville, North Carolina</u> (Address of principal executive offices)	<u>27560</u> (Zip Code)
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Registrant's telephone number, including area code: (919) 460-5500

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below):

- Written Communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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### **Item 2.02 Results of Operations and Financial Condition.**

On November 7, 2011, Tekelec (the “Company”) issued a press release announcing its financial results for the third quarter of fiscal year 2011. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated by reference herein.

The information in this Form 8-K and in Exhibit 99.1 furnished herewith shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that Section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

### **Item 9.01 Financial Statements and Exhibits.**

#### (d) Exhibits

The following Exhibit 99.1 is furnished as part of this Form 8-K:

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated November 7, 2011 of the Company

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Tekelec

Dated: November 7, 2011

By:           /s/ Ronald J. de Lange            
Ronald J. de Lange  
President and Chief Executive Officer

**EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated November 7, 2011 of the Company



FOR IMMEDIATE RELEASE

NEWS RELEASE

## Tekelec Announces Third Quarter 2011 Operating Results

***Revenues of \$106.2 million***

***Orders of \$67.9 million***

***GAAP Gross Margin of 60%, and non-GAAP Gross Margin of 68% (as reconciled below)***

***GAAP Operating Margin of 4%, and non-GAAP Operating Margin of 21% (as reconciled below)***

***GAAP diluted earnings per share of \$0.01, and non-GAAP diluted earnings per share of \$0.19 (as reconciled below)***

***Increases guidance ranges for revenues, gross margins, and earnings per share for the year***

**MORRISVILLE, N.C. – November 7, 2011** – Tekelec (NASDAQ: TKLC), the mobile broadband solutions company, today announced earnings for third quarter 2011.

### 2011 Third Quarter Results from Operations

Revenue for the third quarter 2011 was \$106.2 million, down 2% compared to \$108.3 million for the third quarter 2010. Orders were \$67.9 million for the quarter, down 16% from the same period in 2010. The orders decline was across both the Global Signaling Solutions and Broadband Network Solutions business units. The Company received a Diameter Signaling Router (“DSR”) related order in the amount of approximately \$20 million in early October which was previously expected to be received in the third quarter. This order represents the single largest Broadband Network Solutions order in the Company’s history. The Company received a second DSR related order in the amount of approximately \$13 million in late October from another large carrier. The Company believes these orders demonstrate the continued traction the Company’s products are gaining in the early adoption phase of DSR technology. As of September 30, 2011, backlog was \$225.2 million compared to \$338.8 million as of December 31, 2010.

GAAP gross margins for third quarter 2011 were 60% compared to 55% in third quarter 2010. Non-GAAP gross margins for third quarter 2011 were 68% compared to 63% for third quarter 2010. Gross margins were positively impacted in third quarter 2011 by “book-ship” Eagle 5 revenues from North American customers. Please refer to the attached reconciliations of the non-GAAP financial measures referred to in this release to the most directly comparable GAAP measures.

On a GAAP basis, the Company reported earnings for third quarter 2011 of \$0.8 million, or \$0.01 per diluted share, compared to a net loss in third quarter 2010 of \$0.1 million, or (\$0.00) per share. GAAP operating margins were 4% for third quarter 2011 up from 0% for third quarter 2010. Included in the Company’s third quarter 2011 GAAP operating results is a restructuring charge of \$5.2 million.

On a non-GAAP basis, the Company reported net income for third quarter 2011 of \$13.1 million, or \$0.19 per diluted share, compared to net income of \$10.2 million, or \$0.15 per diluted share, for third quarter 2010. Non-GAAP operating margins for third quarter 2011 were 21% compared to 14% for third quarter 2010.





Ron de Lange, President and CEO, commented: "We continue to make strides in transforming our Company from a voice- and text- centric business to a data and video focused business. Our third quarter results highlight the strong profitability and cash flow contributions we expect from our Global Signaling Solutions business unit, while we advance with our next generation session, policy and subscriber data management solutions in the market. Our fourth quarter orders are off to a strong start with two large Diameter Signaling Router orders from two of the world' s largest service providers. I look forward to working with our customers and employees to continue our business transformation."

### **Year-to-Date Results**

For the first nine months of 2011, revenue was \$310.7 million, down 7% compared to \$333.8 million for the first nine months of 2010. For the first nine months of 2011, the Company' s orders were \$202.7 million, a decrease of 3% compared to the \$209.9 million for the first nine months of 2010. Orders for the Company' s Global Signaling Solutions business unit declined by 11% for the first nine months of 2011 compared to 2010 and orders for the Company' s Broadband Network Solutions business unit grew by 45% through the first nine months of 2011.

On a GAAP basis, the Company reported a net loss of \$21.7 million, or (\$0.31) per share, for the first nine months of 2011, compared to net income of \$23.0 million, or \$0.33 per diluted share, for the first nine months of 2010. GAAP operating margins were (8%) and 11% for the nine months ended September 30, 2011 and 2010, respectively. Included in the Company' s year-to-date 2011 GAAP operating results is a restructuring charge of \$28.5 million.

On a non-GAAP basis, net income for the first nine months of 2011 was \$24.5 million, or \$0.35 per diluted share, compared to \$45.5 million, or \$0.66 per diluted share, for the first nine months of 2010. Non-GAAP operating margins for the first nine months of 2011 were 13% compared to 20% for the first nine months of 2010.

### **Balance Sheet and Liquidity**

As of September 30, 2011, the Company' s consolidated cash and cash equivalents totaled \$270.5 million compared to \$220.9 million at December 31, 2010. The cash and cash equivalents represent \$3.91 per outstanding share at September 30, 2011. Cash flows from operations in third quarter 2011 were \$12.8 million, compared to a use of cash of \$1.0 million in third quarter 2010. For the nine months ended September 30, 2011 the Company generated \$61.3 million in cash flows from operations, compared to \$20.2 million during the first nine months of 2010. Working capital at September 30, 2011 increased to \$301.4 million from \$286.9 million at December 31, 2010.

### **2011 Full Year Guidance**

The Company believes that full year 2011 revenues will range between \$395 million and \$410 million and non-GAAP gross margins will range between 62% and 64%. The Company expects that the non-GAAP EPS range will be between \$0.36 and \$0.43 per diluted share and the range for GAAP EPS will be between a loss of \$0.46 and a loss of \$0.39 per share.

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	<b>2011 Current Guidance</b>	<b>2011 Previous Guidance</b>
Revenues (Millions)	\$395 - \$410	\$360 - \$400
Non-GAAP Gross Margin % *	62% - 64%	59% - 62%
Non-GAAP Diluted EPS **	\$0.36 - \$0.43	\$0.22 - \$0.32
GAAP EPS	(\$0.46) - (\$0.39)	(\$0.58) - (\$0.48)

\* Of the adjustments listed below, approximately \$1 million of stock-based compensation and \$31 million of amortization of intangibles will impact GAAP gross margins.

\*\* Non-GAAP guidance excludes an estimated \$10 million of stock-based compensation, \$40 million of amortization of intangible assets and acquisition-related expenses, and restructuring charges of \$33 million and \$26 million, respectively. Each of these, net of the associated tax impact, are included in GAAP EPS. The estimated net tax impact of the GAAP adjustments is approximately \$26 million and \$24 million, respectively.

### Conference Call

Tekelec has cancelled the earnings conference call that was previously scheduled for Wednesday, November 9, 2011.

### Non-GAAP Information

Certain non-GAAP financial measures are included in this press release. In the calculation of these measures, Tekelec generally excludes certain items such as amortization of acquired intangibles, restructuring and other charges, non-cash stock-based compensation charges, and unusual, non-recurring gains and charges. Tekelec believes that excluding such items provides investors and management with a representation of the Company's core operating performance and with information useful in assessing its prospects for the future and underlying trends in Tekelec's operating expenditures and continuing operations. Management uses such non-GAAP measures to (i) evaluate financial results, (ii) manage the Company's operations, and (iii) establish operational goals. Further, non-GAAP measures are utilized by the Company's management and board of directors to assist in determining incentive compensation and evaluating key trends within the business. In addition, since the Company has historically reported non-GAAP measures to the investment community, the Company believes the inclusion of this information provides consistency in our financial reporting. The release and the attachments to this release provide a reconciliation of each of the non-GAAP measures referred to in this release to the most directly comparable GAAP measure. The non-GAAP financial measures are not meant to be considered a substitute for the corresponding GAAP financial measures.

### Forward-Looking Statements

Certain statements made in this press release, including 2011 Guidance and statements regarding our expectations of the next generation session, policy and subscriber data management solutions orders, are forward-looking, reflect the Company's current intent, belief or expectations and involve certain risks and uncertainties. The Company's actual future performance may differ materially from such expectations as a result of important risk factors, which include, in addition to those identified in the Company's 2010 Form 10-K, 2011 First, Second, and Third Quarter Forms 10-Q and other filings with the Securities and Exchange Commission, the effects on our revenue performance of our year-over-year decline in orders in 2010 and the increasing portion of our orders that are for newer products with longer order-to-revenue conversion cycles and lower margins on initial sales; our increasing dependence on next generation products with which we have less experience forecasting, building, and selling and for which the markets are less mature and more subject to demand and technology changes and increased competition; the effects of an increase in cost associated with selling our next-generation products including the cost associated with customer trials and lab systems, the risk that we may experience

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detrimental effects, such as employee distraction and litigation, from our 2011 restructuring activities, or may not realize the benefits of such activities, including as a result of delays resulting from the Company's complying with and undertaking, or its noncompliance with, any necessary individual and collective employee information and consultation obligations; the difficulty we may have in transitioning from a hardware-centric to a software-centric business; any adverse outcome from or effects of the securities litigations we currently have filed against us or other current or threatened litigation; the current or further detrimental changes in general economic, social, or political conditions in the countries in which we operate including the impact of credit availability and other economic factors on overall capital spending by our customers and resulting pressure on us to lower our prices; the rate and size of decline in demand for our older SS7-based products from which we still derive a substantial portion of our revenues; our ability to compete with other manufacturers that have lower cost bases than ours, are partially supported by foreign governments, and/or employ unfair trade practices; risks related to our international sales, markets and operations, including but not limited to: import regulations, limited intellectual property protection (including protection of our software source code), increased costs and potential liabilities related to compliance with current and future security provisions in customer contracts and regulations, and security, access, and other regulatory requirements imposed by governments, including in particular the government of India; exposure to increased bad debt expense and product and service disputes as a result of general economic conditions; the timeliness and functional competitiveness of our product releases, the timing and size of any increase in demand for our performance management, SIP, Diameter, policy and subscriber database products; the risk of infringing on, and litigating with others regarding their, intellectual property rights; the timing of our recognition of revenues; the extent to which any customer outsourcing to our competitors or supplier consolidation increases the influence of competitors on our customers' purchases; our ability to protect intellectual property rights; our ability to maintain OEM, partner, reseller, and vendor support and supply relationships; changes in the market price of the Company's common stock; and risks that our previously announced proposed merger transaction disrupts current plans and operations and potential difficulties in employee and customer retention as a result of the proposed transaction. Many of the factors that will determine the outcome of the subject matter of this press release are beyond the Company's ability to control or predict. The Company undertakes no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise. The Company also is not responsible for updating any of the other information contained in this press release beyond the published date, or for changes made to this press release by wire services or Internet service providers.

### **About Tekelec**

Tekelec connects people and devices to the mobile Internet. Our portfolio's unique layer of network intelligence allows service providers to both manage and monetize the exponential growth in mobile web, video and applications traffic. Tekelec has more than 25 offices around the world serving customers in more than 100 countries. For more information, please visit [www.tekelec.com](http://www.tekelec.com).

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**TEKELEC**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS <sup>(1)</sup>**

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(Thousands, except per share data)			
<b>Revenues</b>	\$ 106,179	\$ 108,305	\$ 310,738	\$ 333,803
<b>Cost of sales:</b>				
Cost of goods sold	34,236	40,773	115,570	115,963
Amortization of intangible assets	8,087	7,594	23,029	13,094
Total cost of sales	42,323	48,367	138,599	129,057
Gross profit	63,856	59,938	172,139	204,746
<b>Operating expenses:</b>				
Research and development	23,772	24,094	72,965	68,666
Sales and marketing	16,951	20,192	55,673	55,858
General and administrative	11,738	13,219	35,971	39,176
Amortization of intangible assets	1,779	1,613	5,329	2,864
Restructuring and other	5,191	-	28,532	-
Acquisition-related expenses	-	407	-	2,891
Total operating expenses	59,431	59,525	198,470	169,455
Income (loss) from operations	4,425	413	(26,331)	35,291
Other expense, net	(1,112)	(1,073)	(2,760)	(2,932)
Income (loss) before income taxes	3,313	(660)	(29,091)	32,359
Provision for (benefit from) income taxes	2,551	(526)	(7,393)	9,353
<b>Net income (loss)</b>	<u>\$ 762</u>	<u>\$ (134)</u>	<u>\$ (21,698)</u>	<u>\$ 23,006</u>
<b>Earnings (loss) per share:</b>				
Basic	\$ 0.01	\$ (0.00)	\$ (0.31)	\$ 0.34
Diluted	0.01	(0.00)	(0.31)	0.33
<b>Weighted average number of shares outstanding:</b>				
Basic	69,215	68,526	69,013	68,179
Diluted	69,360	68,526	69,013	68,856

(1) We operate under a thirteen-week calendar quarter. For financial statement presentation purposes, the reporting periods are referred to as ended on the last day of the calendar quarter. The accompanying Unaudited Condensed Consolidated Statements of Operations are for the thirteen and thirty-nine weeks ended September 30, 2011 and October 1, 2010.

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**TEKELEC**

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>September 30,<sup>(1)</sup></b>	<b>December 31,</b>
	<b>2011</b>	<b>2010</b>
	(Thousands, except share data)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 270,456	\$ 220,938
Accounts receivable, net	117,305	165,019
Inventories	17,709	28,221
Income taxes receivable	11,447	3,098
Deferred income taxes, current	21,773	19,906
Deferred costs and prepaid commissions	30,879	43,652
Prepaid expenses	7,990	8,527
Other current assets	3,761	3,687
Total current assets	481,320	493,048
Property and equipment, net	35,831	37,169
Deferred income taxes, net, noncurrent	75,957	72,854
Other assets	1,410	1,507
Goodwill	135,620	135,564
Intangible assets, net	64,284	92,245
Total assets	\$ 794,422	\$ 832,387
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 13,650	\$ 17,823
Accrued expenses	38,607	20,344
Accrued compensation and related expenses	16,980	22,680
Current portion of deferred revenues	110,644	145,291
Total current liabilities	179,881	206,138
Deferred income taxes, noncurrent	1,752	7,430
Long-term portion of deferred revenues	4,184	6,812
Other long-term liabilities	15,212	5,422
Total liabilities	201,029	225,802
<b>Commitments and Contingencies</b>		
<b>Shareholders' equity:</b>		
Common stock, without par value, 200,000,000 shares authorized; 69,253,624 and 68,617,232 shares issued and outstanding, respectively	359,143	351,309
Retained earnings	235,131	256,829
Accumulated other comprehensive income (loss)	(881)	(1,553)
Total shareholders' equity	593,393	606,585
Total liabilities and shareholders' equity	\$ 794,422	\$ 832,387

(1) We operate under a thirteen-week calendar quarter. For financial statement presentation purposes, the reporting periods are referred to as ended on the last day of the calendar quarter. The accompanying Unaudited Condensed Consolidated Balance Sheet is as of September 30, 2011.



**TEKELEC**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended September 30,	
	(1)	
	2011	2010
	(Thousands)	
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (21,698)	\$ 23,006
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain (loss) on investments carried at fair value, net	-	(118)
Provision for (recovery of) doubtful accounts and returns	(1,039)	1,934
Provision for (reduction of) warranty	1,550	(1,305)
Inventory write downs	5,810	3,164
Loss on disposals of fixed assets	377	51
Depreciation	13,030	12,383
Amortization of intangibles	28,358	15,958
Amortization, other	239	612
Deferred income taxes	(10,648)	6,925
Stock-based compensation	7,813	9,914
Excess tax benefits from stock-based compensation	(12)	(872)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	46,911	20,112
Inventories	4,767	(5,660)
Deferred costs	13,246	15,889
Prepaid expenses	546	56
Other current assets	(275)	545
Accounts payable	(4,319)	(16,461)
Accrued expenses	24,139	(10,118)
Accrued compensation and related expenses	(5,642)	(20,062)
Deferred revenues	(35,952)	(39,079)
Income taxes receivable	(8,470)	1,617
Income taxes payable	2,606	1,711
Total adjustments	<u>83,035</u>	<u>(2,804)</u>
Net cash provided by (used in) operating activities	<u>61,337</u>	<u>20,202</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(12,039)	(14,060)
Proceeds from sales and maturities of investments	-	92,975
Purchase of acquired business, net of cash acquired	-	(161,953)
Net cash provided by (used in) investing activities	<u>(12,039)</u>	<u>(83,038)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	1,265	10,892
Payments of net share-settled payroll taxes related to equity awards	(1,244)	(2,914)
Excess tax benefits from stock-based compensation	12	872
Net cash provided by (used in) financing activities	<u>33</u>	<u>8,850</u>
Effect of exchange rate changes on cash	187	(558)
Net change in cash and cash equivalents	49,518	(54,544)
<b>Cash and cash equivalents at beginning of the year</b>	<b><u>220,938</u></b>	<b><u>277,259</u></b>

(1) We operate under a thirteen-week calendar quarter. For financial statement presentation purposes, the reporting periods are referred to as ended on the last day of the calendar quarter. The accompanying Unaudited Condensed Consolidated Statements of Cash Flows are for the thirty-nine weeks ended September 30, 2011 and October 1, 2010.

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**TEKELEC**  
**RECONCILIATIONS OF GAAP MEASURES TO NON-GAAP MEASURES**  
**for the Three Months Ended September 30, 2011 and 2010 <sup>(7)</sup>**

	2011		2010	
	Amount	% of revenues	Amount	% of revenues
	(Thousands, except percentages)			
<b>Gross margins</b>	\$ 63,856	60%	\$ 59,938	55%
Adjustments:				
Amortization of intangible assets <sup>(1)</sup>	8,087	8%	7,594	7%
Stock-Based Compensation <sup>(2)</sup>	168	0%	383	0%
Acquisition related cash bonus <sup>(3)</sup>	39	0%	112	0%
<b>Non-GAAP gross margins</b>	<u>\$ 72,150</u>	<u>68%</u>	<u>\$ 68,027</u>	<u>63%</u>

	2011		2010	
	Amount	% of revenues	Amount	% of revenues
	(Thousands, except percentages)			
<b>Operating income (loss)</b>	\$ 4,425	4%	\$ 413	0%
Adjustments:				
Amortization of intangible assets <sup>(1)</sup>	9,866	9%	9,207	9%
Stock-Based Compensation <sup>(2)</sup>	2,480	2%	2,971	3%
Acquisition related cash bonus <sup>(3)</sup>	325	0%	1,999	2%
Restructuring and other <sup>(4)</sup>	5,191	5%	-	0%
Acquisition related charges <sup>(5)</sup>	-	0%	407	0%
<b>Non-GAAP operating margin</b>	<u>\$ 22,287</u>	<u>21%</u>	<u>\$ 14,997</u>	<u>14%</u>

	2011		2010	
	Amount	per diluted share	Amount	per diluted share
	(Thousands, except per share data)			
<b>Net income (loss)</b>	\$ 762	\$ 0.01	\$ (134)	\$ (0.00)
Adjustments:				
Amortization of intangible assets <sup>(1)</sup>	9,866	0.14	9,207	0.13
Stock-Based Compensation <sup>(2)</sup>	2,480	0.04	2,971	0.04
Acquisition related cash bonus <sup>(3)</sup>	325	0.00	1,999	0.03
Restructuring and other <sup>(4)</sup>	5,191	0.07	-	-
Acquisition related charges <sup>(5)</sup>	-	-	407	0.01
Provision for (benefit from) income taxes <sup>(6)</sup>	(5,570)	(0.08)	(4,285)	(0.06)
<b>Non-GAAP net income</b>	<u>\$ 13,054</u>	<u>\$ 0.19</u>	<u>\$ 10,165</u>	<u>\$ 0.15</u>

**Weighted average number of shares outstanding:**

Basic	69,215	68,526
Diluted	69,360	68,860

(1) The adjustments represent the amortization of purchased technology and other intangibles related to acquired companies.

- (2) The adjustments represent stock-based compensation expense recognized related to awards of stock options, restricted stock or restricted stock units or stock appreciation rights granted under our equity incentive plans and stock purchase rights granted under our employee stock purchase plan.
- (3) The 2011 adjustment represents consideration payable to former Camiant employees for options not assumed in the merger. The 2010 adjustment represents bonuses for certain Blueslice employees contingent upon their continued employment and the achievement of individual integration related milestones.
- (4) The adjustment represents the elimination of the costs associated with our restructuring activities.
- (5) The adjustment represents professional fees, travel and other costs associated with our acquisition of Camiant and Blueslice.
- (6) The adjustment represents the income tax effect of footnotes (1), (2), (3), (4) and (5) in order to reflect our non-GAAP effective tax rate.
- (7) We operate under a thirteen-week calendar quarter. For financial statement presentation purposes, the reporting periods are referred to as ended on the last day of the calendar quarter. The accompanying Reconciliations of Selected GAAP measures to non-GAAP measures are for the thirteen weeks ended September 30, 2011 and October 1, 2010.

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**TEKELEC**  
**RECONCILIATIONS OF SELECTED GAAP MEASURES TO NON-GAAP MEASURES**  
**for the Nine Months Ended September 30, 2011 and 2010 <sup>(7)</sup>**

	2011		2010	
	Amount	% of revenues	Amount	% of revenues
	(Thousands, except percentages)			
<b>Gross margins</b>	\$ 172,139	55%	\$ 204,746	61%
Adjustments:				
Amortization of intangible assets <sup>(1)</sup>	23,029	7%	13,094	4%
Stock-Based Compensation <sup>(2)</sup>	747	0%	1,048	0%
Acquisition related cash bonus <sup>(3)</sup>	146	0%	177	0%
<b>Non-GAAP gross margins</b>	\$ 196,061	63%	\$ 219,065	66%

	2011		2010	
	Amount	% of revenues	Amount	% of revenues
	(Thousands, except percentages)			
<b>Operating margins</b>	\$ (26,331)	-8%	\$ 35,291	11%
Adjustments:				
Amortization of intangible assets <sup>(1)</sup>	28,358	9%	15,958	5%
Stock-Based Compensation <sup>(2)</sup>	7,813	3%	9,914	3%
Acquisition related cash bonus <sup>(3)</sup>	1,017	0%	3,168	1%
Restructuring and other <sup>(4)</sup>	28,532	9%	-	0%
Acquisition related expenses-other <sup>(5)</sup>	-	0%	2,891	1%
<b>Non-GAAP operating margins</b>	\$ 39,389	13%	\$ 67,222	20%

	2011		2010	
	Amount	per diluted share	Amount	per diluted share
	(Thousands, except per share data)			
<b>Net income</b>	\$ (21,698)	\$ (0.31)	\$ 23,006	\$ 0.33
Adjustments:				
Amortization of intangible assets <sup>(1)</sup>	28,358	0.41	15,958	0.23
Stock-Based Compensation <sup>(2)</sup>	7,813	0.11	9,914	0.14
Acquisition related cash bonus <sup>(3)</sup>	1,017	0.01	3,168	0.05
Restructuring and other <sup>(4)</sup>	28,532	0.41	-	-
Acquisition related expenses-other <sup>(5)</sup>	-	-	2,891	0.04
Provision for (benefit from) income taxes <sup>(6)</sup>	(19,498)	(0.28)	(9,422)	(0.14)
<b>Non-GAAP net income</b>	\$ 24,524	\$ 0.35	\$ 45,515	\$ 0.66

**Weighted average number of shares outstanding:**

Basic	69,013	68,179
Diluted	69,233	68,856

(1) The adjustments represent the amortization of purchased technology and other intangibles related to acquired companies.

- (2) The adjustments represent stock-based compensation expense recognized related to awards of stock options, restricted stock or restricted stock units or stock appreciation rights granted under our equity incentive plans and stock purchase rights granted under our employee stock purchase plan.
- (3) The 2011 adjustment represents consideration payable to former Camiant employees for options not assumed in the merger. The 2010 adjustment represents: (i) bonuses for certain Blueslice employees contingent upon their continued employment and the achievement of individual integration related milestones and (ii) consideration payable to Estacado that is contingent upon the continued employment of certain former Estacado employees by Tekelec.
- (4) The adjustment represents the elimination of the costs associated with our restructuring activities.
- (5) The adjustment represents professional fees, travel and other costs associated with our acquisitions of Camiant and Blueslice.
- (6) The adjustment represents the income tax effect of footnotes (1), (2), (3), (4) and (5) in order to reflect our non-GAAP effective tax rate. The 2011 effective rate was also impacted by a discrete net benefit of approximately \$1.0 million related to the completion of certain transfer pricing studies offset by a discrete charge of \$0.9 million relating to the establishment of a valuation allowance for certain tax credits.
- (7) We operate under a thirteen-week calendar quarter. For financial statement presentation purposes, the reporting periods are referred to as ended on the last day of the calendar quarter. The accompanying Reconciliations of Selected GAAP Measures to non-GAAP measures are for the thirty-nine weeks ended September 30, 2011 and October 1, 2010.

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**TEKELEC GUIDANCE**  
**RECONCILIATIONS OF GAAP MEASURES TO NON-GAAP MEASURES**  
**2011**

	Low		High	
	Amount	% of revenues	Amount	% of revenues
	(Thousands, except percentages)			
<b>Revenues</b>	\$ 395,000		\$ 410,000	
<b>Gross margins</b>	\$ 213,000	54%	\$ 230,000	56%
Adjustments: <sup>(5)</sup>				
Amortization of intangible assets <sup>(1)</sup>	31,000	8%	31,000	8%
Stock-Based Compensation <sup>(2)</sup>	1,000	0%	1,000	0%
<b>Non-GAAP gross margins</b>	<u>\$ 245,000</u>	<u>62%</u>	<u>\$ 262,000</u>	<u>64%</u>
	Low		High	
	Amount	% of revenues	Amount	% of revenues
	(Thousands, except percentages)			
<b>Operating income (loss)</b>	\$ (38,750)	-10%	\$ (34,000)	-8%
Adjustments: <sup>(5)</sup>				
Amortization of intangible assets and acquisition related expenses <sup>(1)</sup>	40,000	10%	40,000	10%
Stock-Based Compensation <sup>(2)</sup>	10,000	3%	10,000	2%
Restructuring <sup>(3)</sup>	33,000	8%	33,000	8%
<b>Non-GAAP operating margin</b>	<u>\$ 44,250</u>	<u>11%</u>	<u>\$ 49,000</u>	<u>12%</u>
	Low		High	
	Amount	per diluted share	Amount	per diluted share
	(Thousands, except per share data)			
<b>Net income (loss)</b>	\$ (32,000)	\$ (0.46)	\$ (27,250)	\$ (0.39)
Adjustments: <sup>(5)</sup>				
Amortization of intangible assets and acquisition related expenses <sup>(1)</sup>	40,000	0.578	40,000	0.578
Stock-Based Compensation <sup>(2)</sup>	10,000	0.144	10,000	0.144
Restructuring <sup>(3)</sup>	33,000	0.477	33,000	0.477
Provision for (benefit from) income taxes <sup>(4)</sup>	(26,000)	(0.376)	(26,000)	(0.376)
<b>Non-GAAP net income</b>	<u>\$ 25,000</u>	<u>\$ 0.36</u>	<u>\$ 29,750</u>	<u>\$ 0.43</u>
<b>Weighted average number of shares outstanding:</b>				
Basic		69,013		69,013
Diluted		69,233		69,233

(1) The adjustments represent the amortization of purchased technology and other intangibles related to acquired companies.

(2) The adjustments represent stock-based compensation expense recognized related to awards of stock options, restricted stock or restricted stock units or stock appreciation rights granted under our equity incentive plans and stock purchase rights granted under our employee stock purchase plan.

- (3) The adjustment represents the elimination of the costs associated with our restructuring activities.
- (4) The adjustment represents the income tax effect of footnotes (1), (2) and (3) in order to reflect our non-GAAP effective tax rate of 33% for the year.
- (5) Adjustments are point estimates and actual results may vary from these point estimates.

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